

\$8,685,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
EDUCATIONAL FACILITIES REVENUE BONDS
(DOWNTOWN COLLEGE PREPARATORY)
SERIES 2014A (TAX-EXEMPT) AND 2014B (TAXABLE)
EXECUTIVE SUMMARY
RESOLUTION 14-24

Borrower and Owner of Facilities: DCP Facilities 1, LLC

Project User: Downtown College Preparatory – Alum Rock

Loan Amount: Not to exceed \$10,000,000

Expected Issuance: September 2014

Project: The construction of new educational facilities for Downtown College Preparatory – Alum Rock

Bond Type: School Facility Revenue Bonds (Taxable and Tax Exempt Series)

Project Location: 2800 Ocala Avenue, San Jose, California

County: Santa Clara County

District in which Project is Located: Alum Rock Union Elementary School District

Charter Authorizer: Santa Clara County Office of Education

Est. Annual Payment: \$612,000

Anticipated Rating: Expected “BB” Category

Structure: \$8,350,000 (Tax-Exempt) and \$335,000 (Taxable)

Sale Method: Limited Public Offering

Underwriter: Stifel Nicolaus & Co., Inc.

Borrower’s Financial Advisor: Urban Futures Incorporated

Bond Counsel: Orrick Herrington & Sutcliffe

I. Use of Bond Proceeds

A portion of the proceeds of the Bonds will be used to finance and refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of the Facility, expected to cost approximately \$3,900,000 for Phase I and \$3,400,000 for Phase II (collectively, the "Project").

Phase I of the Project includes the construction of nine additional classrooms, an outdoor amphitheater, a multipurpose auditorium and administration building, additional restrooms and covered lunch shelters and eating areas, [in addition to other improvements to facilities, including the acquisition and installation of support facilities and equipment] and improvements to the parking lot to comply with the State Division of State Architect requirements. The new classroom buildings for Phase I are expected to be modular buildings of approximately 9,100 square feet. The lunch shelter is expected to be approximately 1,800 square feet. Phase I of the Project received approval from the California Division of the State Architect (DSA) in August 2014. Construction of Phase I of the Project is expected to commence in late September 2014, and is expected to be completed in February 2015.

Phase II of the Project includes the construction of a custom built administrative and laboratory building of approximately 6,000 square feet. Phase II of the Project is expected to be submitted for DSA approval in January 2015, and, upon receipt of approval by the DSA, construction is expected to commence in the summer of 2015 and is expected to be completed in the spring of 2016.

The Facility is on site with a current address of 2800 Ocala Avenue, San Jose, California. The Facility is currently being leased by the Borrower, as assignee under a Ground Lease with the School District, and consists of a portion of the land on which the Ocala Middle School, operated by the School District, is located. In total, the Facility leased from the School District consists of approximately 53,100 square feet of land area, and approximately 5,500 square feet of existing portable buildings.

II. The Project User and the Borrower

The Borrower: Across the Bridge Foundation (ABF) (dba Downtown College Preparatory) is a nonprofit public benefit corporation incorporated under the law of the State of California and recorded by the Secretary of State on September 16, 1999. ABF operates as a California nonprofit public benefit corporation and is organized and operated exclusively for charitable purposes within the meaning of Section 501(c)(3) and 509(a)(3) entity under the Code. ABF's mission is to prepare underachieving students who will be the first in their families to go to college and to thrive at four-year universities.

ABF currently operates three schools on multiple campuses in central and east San Jose, California: Downtown College Preparatory ("DCP Alameda"), DCP Alum Rock and Downtown College Prep Middle School ("DCP Middle School"), a new middle school serving grades 6-8 to be operated under a charter approved by the San Jose Unified School District commencing with the 2014-15 school year. DCP Alameda, DCP Alum Rock and DCP Middle School are referred to collectively herein as the "DCP Schools." Collectively, the DCP Schools served approximately 660 students in grades 6-12 in fiscal year 2012-13 and approximately 760 students in grades 6-12 in fiscal year 2013-14. Total enrollment at the DCP Schools is projected to be approximately 1,150 in fiscal year 2014-15 (which includes projected enrollment at the new DCP Middle School).

The Project User: In August of 2011, ABF opened DCP Alum Rock, initially at the former Miller School located at 1250 South King Road in San Jose, California (the “Miller Site”). DCP Alum Rock initially opened serving approximately 180 students in grades 6-7 in fiscal year 2011-12. In September 2013, DCP Alum Rock relocated its sixth and seventh grade students to a site with a current address of 2800 Ocala Avenue, San Jose, California (the “Ocala Site”), which is the site for the Facility. The other grade level students remained at the Miller Site. In fiscal year 2012-13, DCP Alum Rock served 265 students in grades 6-8. In fiscal year 2013-14, there were 285 students in grades 6-8 enrolled at DCP Alum Rock, consisting of approximately 185 students at the Ocala Site and approximately 100 students at the Miller Site. The students at the Miller Site will be relocated to the Ocala Site upon completion of the Project. The above enrollment figures do not include students enrolled in grades 9-12 at DCP Alum Rock. The first ninth grade class at DCP Alum Rock began in fiscal year 2013-14.

The charter for DCP Alum Rock was originally approved by the Santa Clara County Office of Education in Fall 2011 to serve grades 6-12. ABF, however, plans to convert its charter for DCP Alum Rock to operate grades 6-8 only (i.e., the School), and to obtain a separate charter from East Side Union High School District to operate grades 9-12 of DCP Alum Rock as a separate charter school. ABF anticipates that the separate charters will be obtained in the 2015-16 fiscal year. DCP Alum Rock, serving grades 6-8, will operate at its Ocala Campus and use the Facility upon completion of construction. High school level students from the Miller Site are planned to be relocated to the facilities at Independence High School campus for the 2014-15 school year. The charter for DCP Alum Rock currently expires on June 30, 2016. ABF expects to renew the DCP Alum Rock (grades 6-8) in the Fall 2015.

III. Financial Structure

The Bonds will be issued in two series: (1) Series A (tax-exempt) will be approximately \$8.35 million, and (2) Series B (taxable) will be approximately \$335,000. The Bonds will have a final maturity of June 1, 2044. The Bonds will be interest only through June 1, 2015 (the first principal payment will be June 1, 2015). Interest will be capitalized through March 1, 2015.

The Bonds will be sold as an obligated group structure. Under the obligated group structure, DCP Facilities 1, LLC will serve as the borrower for the bonds. DCP Facilities 1, LLC will construct the facilities from the bond proceeds and own them over the long-term. DCP Facilities 1, LLC will execute a long-term lease with Across the Bridge Foundation (i.e. “ABF” or “Downtown College Prep” or “DCP”) to operate their DCP Alum Rock (Grades 6-8) school operations in the facilities. The obligated school structure enables the ABF to add future special purpose entities (such as DCP Facilities 1, LLC) and DCP schools to the obligated group structure to facilitate future financing of additional school facilities, as needed.

IV. Security and Source of Payment

ABF will make rent payments (including bond payments, ground lease payments, additional rent and expenses) from a pledge of its gross school revenues generated from Grade 6-8 operations from the school. There is no pledge of revenues from any other DCP school, or any parental guarantee from ABF.

V. Preliminary Sources and Uses/Cost of Issuance

Preliminary Sources and Uses of Funds

Below are the preliminary sources and uses, and detailed information about the costs of issuance for board consideration.

Estimated Sources & Uses

SOURCES	Series A (Tax-Exempt)	Series B (Taxable)	TOTAL
Bond Amount	\$8,350,000.00	\$335,000.00	\$8,685,000.00
Total	\$8,350,000.00	\$335,000.00	\$8,685,000.00
USES			
Project Fund	\$7,292,501.15	-	\$7,292,502.15
Capitalized Interest Fund	\$ 226,841.67	\$ 10,617.64	\$ 237,459.31
Reserve Fund	\$ 664,731.15	\$ 26,668.85	\$ 691,400.00
Costs of Issuance Fund*	\$ 165,925.03	\$297,713.51	\$ 463,638.54
Total	\$8,350,000.00	\$335,000.00	\$8,685,000.00

* Includes underwriter's discount of \$195,412.50 (equal to 2.25% of the bond amount).

Estimated Costs of Issuance

Team Member	Party	Est. Cost
Bond Counsel	Orrick, Herrington & Sutcliffe	\$ 95,000
Borrower's Counsel	McKenna Long & Aldridge LLP	52,500
Issuer ^{1,2}	California School Finance Authority	14,330
Issuer's Counsel	Nixon Peabody	20,000
Financial Advisor	Urban Futures, Inc.	20,000
Underwriter ^{1,3}	Stifel, Nicolaus & Co., Inc.	195,413
Underwriter's Counsel	Fox Rothschild LLP	20,000
Credit Rating Agency ¹	Standard & Poor's	28,000
Bond Trustee/Dissemination Agent ⁴	Wilmington Trust, N.A.	3,000
Trustee's Counsel	Lesnick Prince Pappas LLP	1,000
TEFRA Notice	San Jose Mercury News/Sacramento Bee	1,675
Contingency	[TBD]	5,000
Printer	[TBD]	2,000
Total		\$ 457,917

¹Based on estimated par amount of \$8,685,000.

²Includes one-time issuer fee equal to 0.15% of the bond amount and prepayment of first year's annual issuer's fee equal to 0.015% of the bond amount.

³Assumes underwriting fee of 2.25% on estimated par amount.

⁴Includes \$1,000 one-time acceptance fee plus prepayment of first year's annual administration fee of \$2,000.

VI. Borrower Financial Data

Attached at Exhibit A is a schedule of DCP – Alum Rock 5-year budget, in addition to the projected 5-year debt service coverage. Enrollment projections are provided as Exhibit B to this staff summary.

VII. Due Diligence Undertaken to Date

No information was disclosed to question the financial viability or legal integrity of the Borrower. Standard opinions of counsel (i.e., that the borrowing entity has been duly organized, is in good standing, is a 501(c)(3) organization, has the full authority to enter into all documents which are valid and binding, etc.) will be delivered at closing.

VIII. Bond Sales Restrictions

Per Bond Issuance Guidelines adopted by the CSFA board, and given an expected bond rating of “BB” category, the following sales restrictions may apply to the DCP Project financing: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

1. Bonds will be in minimum denominations of \$250,000; and
2. Bonds will be privately placed or publicly offered initially to Qualified Institutional Buyers (QIB) and Accredited Investors (AI); and
3. Bonds purchases will be required to execute an initial Investor Letter; and
4. Subsequent transfers of bonds will be limited to QIBs and AIs; and
5. Sales restrictions conspicuously noted on bond and described in detail in offering materials, if any, as well as in the bond documents; and
6. Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code.

If the Bonds ever reach a rating of “A3/A” or above, the following sale restrictions will apply to the DCP Project financing, going forward:

1. Bonds will be in a minimum denominations of \$5,000; and
2. All transfer restrictions to future purchasers will be removed; and
3. Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code.

IX. Staff Recommendation

Staff recommends CSFA approve Resolution Number 14-24 in an amount not to exceed \$10,000,000.

Exhibit A 5-Year Budget Projections

	Audited 2011-12	Audited 2012-13	Estimated 2013-14*	Budgeted 2014-15	Projected 2015-16	Projected 2016-17	Projected 2017-18	Projected 2018-19
ENROLLMENT	180	265	285	369	420	420	420	420
REVENUES								
Revenue limit sources								
State apportionment	502,882	698,373	777,262	1,026,089	1,293,585	1,354,220	1,409,548	1,460,908
In-lieu property taxes	547,619	810,403	917,866	1,604,909	2,023,300	2,118,139	2,204,678	2,285,010
Federal revenue	265,956	238,282	104,106	141,562	181,132	206,212	206,212	206,212
State revenue	47,736	122,559	134,178	245,747	356,953	364,493	364,493	364,493
Local revenues	286,973	74,352	425,335	123,542	100,560	49,560	49,560	49,560
Total Revenue	1,651,166	1,943,969	2,358,747	3,141,849	3,955,530	4,092,624	4,234,491	4,366,183
EXPENSES								
Program Services								
Teacher salaries and benefits	594,531	748,114	958,136	931,199	1,175,659	1,229,784	1,279,205	1,330,509
Academic/student support salaries/benefits	184,151	272,161	280,281	522,813	654,249	685,771	714,677	744,719
Student transportation	4,376	6,953	7,308	10,065	11,456	11,456	11,513	11,571
Instructional & student services	83,083	107,333	117,014	208,505	188,855	189,174	190,033	190,894
Occupancy	114,368	154,132	276,739	358,814	344,476	350,197	382,629	415,067
Instructional & student supplies	224,993	202,447	285,364	242,820	258,081	255,978	256,845	257,717
Student nutrition	5,042	7,020	19,766	21,057	22,519	22,576	22,689	22,802
Special education fees	19,726	327	47,452	37,085	42,420	42,630	42,843	43,057
Depreciation	1,560	3,467	6,022	12,631	13,127	16,825	15,328	10,961
Subtotal - Program Svcs	1,231,830	1,501,954	1,998,084	2,344,989	2,710,842	2,804,391	2,915,762	3,027,297
Management and General								
District supervisory fee	10,505	13,319	17,709	26,310	33,169	34,724	36,142	37,459
Insurance	11,854	17,762	17,624	25,700	29,252	29,252	29,398	29,545
Operations expenses	150,406	215,745	219,005	369,811	422,156	441,083	455,454	468,807
Debt Service	-	-	-	130,238	635,950	687,900	675,700	650,200
Subtotal - Mgmt & Gen'l	172,765	246,826	254,338	552,059	1,120,527	1,192,959	1,196,694	1,186,011
Total Expenses	1,404,595	1,748,780	2,252,421	2,897,047	3,831,369	3,997,350	4,112,456	4,213,308
INCREASE IN NET ASSETS	246,571	195,189	106,326	244,802	124,161	95,274	122,035	152,875

*Financial results from grades 6-8 only.

5-Year Projected Debt Service Coverage (Minimum Coverage Requirement: 110%)

		Budgeted 2014-15	Projected 2015-16	Projected 2016-17	Projected 2017-18	Projected 2018-19
A	Net Operating Income	244,802	124,161	95,274	122,035	152,875
B	Add Back: Management Fees	301,831	385,497	404,306	418,493	431,662
C	Add Back: Depreciation	12,631	13,127	16,825	15,328	10,961
D	Add Back: Debt Service	130,238	635,950	687,900	675,700	650,200
A+B+C+D	Net Income Available for Debt Service	689,501	1,158,735	1,204,305	1,231,556	1,245,698
F	Debt Service	130,238	635,950	687,900	675,700	650,200
G	Ground Lease Payments	57,995	130,114	108,588	140,088	171,588
F+G	Base Rent	188,233	766,064	796,488	815,788	821,788
E/H	Coverage Ratio	366.3%	151.3%	151.2%	151.0%	151.6%

Exhibit B
Historical and Projected Enrollment

School	2010 11	2011 12	2012 13	2013 14	2014 15	2015 16	2016 17
Obligated Group Schools							
DCP Alum Rock (6-8) Middle School		180	265	285	369	420	420
Other Network Schools							
DCP (9-12) High School	412	395	399	407	450	450	450
DCP Alum Rock (9-12) High School				68	190	330	445
DCP (6-8) Middle School					140	280	420
New Middle School #1							140
New Middle School #2							140
Total Enrollment	412	575	664	760	1,149	1,480	2,015